

× AN AUDIT PROGRAM
FOR
CERTIFIED PUBLIC ACCOUNTANTS
EXAMINING THE BOOKS OF
R.E.A. BORROWERS ×
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UNITED STATES DEPARTMENT OF AGRICULTURE

RURAL ELECTRIFICATION ADMINISTRATION

APRIL 1949

2080

AN AUDIT PROGRAM FOR CERTIFIED PUBLIC ACCOUNTANTSEXAMINING THE BOOKS OF R.E.A. BORROWERSINTRODUCTION

It is the policy of REA to encourage its borrowers to become self-reliant looking ahead to the time when they will own their systems outright. While it is a function of REA to assure repayment of its loans, it is the policy of the agency to have borrowers, as rapidly as they achieve sufficient operating stability, assume responsibility for the condition of their affairs.

In connection with this over-all policy of encouraging greater assumption of responsibility as certain standards are reached they are requested to assume the responsibility for the audit of their accounts. The employment of an independent accountant rests with the borrower.

Our borrowers have been advised to submit the names of the certified public accountants which they have selected to REA for approval prior to beginning the audit but after an agreement has been reached as to the scope of the audit and the fee. The Administration does not give blanket approval to any accountant or firm of accountants for this work but gives specific approval on a case basis. Although it is not an absolute requirement that accountants be members of the American Institute of Accountants, it is expected that they will meet the standards prescribed for Institute membership.

Although this booklet is not intended as a manual of audit procedure, it is presented as a guide for a minimum audit for public accountants in preparing their audit programs and to assist our borrowers in measuring the effectiveness of the audit proposals submitted to them. In preparing this program we have utilized much of the material contained in a booklet promulgated by the Tennessee Valley Authority, entitled, "Suggestions for an Audit Program to be Followed by Independent Accountants Examining the Books of Municipal Electric Department and Cooperatives." We herewith wish to gratefully acknowledge the usefulness of that booklet and the work of the TVA employees who were responsible for its publication and distribution. We realize that, except in the broadest terms, the full scope of the audit cannot be established before the work is actually started. Problems which are peculiar to the individual borrower must be recognized and solved as the audit progresses. The amount of detailed auditing necessary should be measured by the adequacy of the internal control and conditions of the records.

It is expected that the audits performed will meet REA standards. The audit outlined represents a minimum audit program and should not interfere in any way with existing professional standards or with the accountant's judgment as to any additional work that should be done in order that an adequate report may be prepared. Where the records are deficient or incomplete, it is urged that in such cases the auditor clearly indicate in his report any material deviation from this minimum program and the reasons therefor.

UNIFORM REPORTS

One objective in publishing this audit program is to have audits performed and reports submitted in as uniform a manner as practicable. This booklet includes the sample audit report furnished our staff so that it may serve as a guide to the public accountant in the preparation of a report which will best meet the needs of REA and its borrowers. The element of uniformity is highly important. The Rural Electrification Administration makes loans throughout the continental United States and certain of its possessions for the construction and operation of generating plants and electric transmission and distribution systems for the furnishing of electric energy to persons in rural areas. It assists borrowers in the construction and effective operation of such facilities. It also makes studies and disseminates information concerning the conduct and progress of rural electrification. Uniformity in report presentation, terminology, and accounting techniques makes it possible for the REA staff to appraise the operations of a particular borrower either in terms of its own past performance or the performance of other borrowers. It further permits our staff to prepare summaries, consolidated reports, and such other comparable statistical data for management purposes as may be required.

The public accountant should familiarize himself with the accounting procedures peculiar to this type of electrical utility accounting as prescribed in the following manuals and instructions issued by REA:

1. Uniform System to Accounts
2. Depreciation Manual
3. Manual on Work Order Procedure
4. Amortization of Intangibles
5. Procedure for Recording Capital Credits
6. Miscellaneous Accounting Instructions

These publications should be secured from the client prior to the audit, since this type of material is prepared by REA in limited quantities and is not available for general distribution.

In those cases where the accountant cannot agree with REA methods and procedures, he may make such comments as he deems necessary. In connection with such comments, he should point out not only the extent of his disagreement but should fully state the reasons for his dissent. Under no circumstances should the public accountant direct the borrower to follow methods or procedures contrary to those prescribed by the Administration. He should communicate with the Finance Division of REA in regard to any questions which he may have with respect to the accounting methods and procedure prescribed by REA.

TYPE OF AUDIT

Unless there has been some agreement to the contrary, it is contemplated that the work to be performed will consist generally of a Balance Sheet Audit. Operating transactions should be examined through the application of recognized procedures and in sufficient detail to make it possible for the accountant to certify to the complete report.

AUDIT REPORT

Financial statements included in the report should be in agreement with the books on the balance sheet date. When considered advisable, qualifications and comments regarding financial statement may be included.

- The report should also include comments on other matters which are considered pertinent to any conditions not directly related to financial statements such as are indicated in the sample report attached.

The completed report should consist of at least four copies for distribution as follows:

1. Two copies to the United States Department of Agriculture, Rural Electrification Administration, Washington 25, D. C., marked for the attention of the Finance Division.
2. At least two copies for the REA borrowers, to be distributed as follows:
 - a. One copy to the president of the board.
 - b. One copy to the borrower's manager.
 - c. As many additional copies for the borrower as he requests.

PRELIMINARY WORK

It is important that public accountants become familiar with the Rural Electrification Act of 1936, as amended, and with the Administration's policies in order that determination may be made that the borrower is conforming to required standards. It is suggested that they become especially familiar with the Uniform System of Accounts and supplemental accounting instructions prescribed by the REA for use by its borrowers.

The adequacy of the system of internal control should be considered as a factor in determining the extent to which detailed examination will be necessary. The distribution of responsibility among office and other borrower's personnel should be considered carefully as to the degree of internal control exercised. Where internal control is considered inadequate, auditing efforts should be applied in sufficient detail to insure proper safeguards for the protection of all concerned.

PRIOR YEARS' WORK

In certain instances a review of some balance sheet accounts such as fixed capital and related reserves, patronage capital, and other member's and patron's equities may be necessary in order to determine the correctness of the balances in the accounts at the beginning of the audit period. Generally, balances reflected in the accounts at the beginning of the period as reflected by the prior audit report prepared by REA auditors should be accepted, even if it is necessary to qualify the certificate. Copies of prior reports will be available at the borrower's office.

AUDIT WORK PAPERS

Any information contained in the accountant's work papers should be made available to the client upon request.

PERIOD UNDER REVIEW

ASSETS

UTILITY PLANT

The Rural Electrification lines and generating plants have been built either by contract construction or by force account. Contract construction consists of the building of a certain section of line by an independent contractor according to the specifications in an executed contract. The contract work is performed under the supervision of an independent engineer who is governed by his engineering contract.

Construction by force account is work performed by the borrower's own employees either with or without the supervision of an outside engineer. The cost of this kind of construction is recorded through a work order procedure. These work orders are submitted to REA for approval before being capitalized in the plant accounts. For sections of lines constructed by force account, the work order procedure is used as a means of determining the cost. A force account inventory is then prepared as a basis for capitalization.

The cost of construction by contract is recorded on an inventory of assembly units prepared by the engineer, and is the basis for capitalization.

It is not expected that the public accountant will audit construction fund expenditures as to loan budget purposes. This work will be performed by an REA auditor in a subsequent construction fund audit.

A minimum verification of utility plant should include the following:

Generally:

1. A review of the classification and method of property accounting as outlined by the Uniform System of Accounts prescribed by REA, and the Manual of Work Order Procedure.
2. Discussion with engineers, managers and others concerning physical changes in plant during the period of audit and review of map records. Review of agreements relating to acquisitions, sales, etc.

3. Examination of internal control over the distribution of labor and material from stores, and the policies followed in distributing such charges between construction, operations, maintenance and cost of removal.

As to Additions

1. A review of work order descriptions or inventories of plant installed to determine that jobs are proper capital items and properly authorized and to ascertain that related retirements are recorded.
2. An analysis, as may be considered necessary, of the more important, unusual, or questionable work orders.
3. Invoices charged direct to plant accounts should be examined on a test basis; contracts should be extracted, and it should be ascertained that the entire liability in connection therewith at the balance sheet date has been reflected on the books.
4. The basis for and the reasonableness of the charges from clearing accounts should be reviewed, and the accountant should satisfy himself that the operating accounts are not unduly relieved or burdened.
5. The Uniform System of Accounts prescribes the overhead construction costs charged to fixed capital. Only those general and administrative expenses which have a provable relationship to construction should be capitalized, and only those costs which would not have been incurred if construction had not been undertaken should govern the amount of General and Administrative Expenses capitalized.
6. A limited test of material charge and credit tickets plus the daily work reports should be examined to determine whether maintenance and cost of removal have been charged to plant. This is particularly true of member extension work orders.

As to Retirements

Generally speaking, retirements arise from replacements and abandonments. There are a number of sources which will reveal clues to retirements not recorded on the books, such as construction work orders, salvage credits to property accounts, map records, and statistical information.

The accountant should determine the basis used in pricing retirements and check such prices to the proper source (original cost records, etc.). No gain or loss on individual retirements of production, transmission and distribution properties is recognized unless the reserve is materially distorted, as the reserve for depreciation is provided on a composite basis.

Where property unit records have been maintained, the verification of additions to property and retirements should not vary greatly from the procedure outlined above.

Where no work order system or property unit records are in use it will be necessary to be particularly careful in verifying plant charges.

CURRENT AND ACCRUED ASSETS

Cash and Cash Funds

Confirmation of cash in banks should be obtained and book balances reconciled thereto. Petty cash funds should be counted and reconciled.

Comments should be made when cash receipts are not deposited intact, preferably daily. It should be determined that operating, construction, debt service, and any other special funds are being deposited and disbursed in accordance with the prescribed manual and in accordance with legal and other requirements. The accountant should report on the use of any construction funds for operating purposes, or vice versa.

Investments

Investments as shown by the books as of the audit date should be verified by inspection or certification from the custodian. The accountant should also determine whether or not investments have been made in violation of law or contract.

Receivables and Reserves for Uncollectible Receivables

Notes Receivable should be verified by inspection or by certification from the custodian.

Balances of individual accounts receivable as of the audit date should be reconciled to control accounts. On a limited test-check basis, unpaid past-due accounts may be selected from various groups of receivables for confirmation by controlled correspondence. Write-offs of uncollectible accounts should be reconciled to the respective reserves and the auditor should verify that REA policy is being followed in writing off uncollectible accounts.

Important other receivables, such as those with employees and those of sizeable amount or past due should be reviewed for validity and may be confirmed.

Materials and Supplies

Physical inventories of line materials and supplies and resale materials should be taken by or under the direction of the manager, at or near the balance sheet date. The accountant should apply suitable test-checks of the inventory footings, computations and prices. Some items should be counted and test-checked to the perpetual inventory records. Evidence of intervening transactions should be reviewed and it should be ascertained that the perpetual inventory records were brought into substantial agreement with the physical inventory. Cash discounts are normally applied against the invoice price in determining cost.

Prepaid and Deferred Charges

Important items included in these accounts should be examined for propriety, vouched, and where significant, write-offs tied to expense accounts. It should be determined that the balances as of the balance sheet date are properly applicable to subsequent periods, or represent items properly includible under this caption. Insurance coverage should be determined, and it should be ascertained whether or not the borrower is covered to the extent required by REA policy.

LIABILITIES

LONG-TERM DEBT

The balances covering long-term debt and accrued interest thereon, in the case of long-term loans from REA, should be reconciled to the most recent statement of principal and interest received from REA. Statements are forwarded quarterly.

For evidence of other long-term debt, verification should be made by correspondence, if deemed advisable. In this connection, a review of the minutes of board meetings, provisions of loan agreements, contracts, and mortgages should be examined for conformance, and important provisions extracted in order that it may be determined that their terms have been complied with.

CURRENT AND ACCRUED LIABILITIES

It should be determined that the detailed subsidiary records are in agreement with the control accounts at the balance sheet date and if deemed necessary with creditors' statements or other evidence of liability such as pay rolls, tax returns, assessments, etc. Accounts paid subsequent to the balance sheet date should be examined to determine if such items are applicable to the period under review.

The subsidiary record of consumers' meter deposits should be reconciled with the control account.

CONTRIBUTIONS IN AID OF CONSTRUCTION

Balances contained in this account should be verified as to propriety of amount. Where state regulatory bodies permit, contributions for construction of plant in service should be handled as a valuation account for utility plant as provided in the manual of **accounts**. Such credits should be allocated to the specific classified plant accounts involved in the construction for which the contributions were made.

MEMBER AND PATRON EQUITIES

More than 90 percent of all REA borrowers are organized and operated as nonprofit cooperatives whose members are both the owner and the users of the electric system. Certain differences in accounting terminology and practices of these borrowers will be understood more readily if their nonprofit character is kept in mind. Equities, apart from the initial member investments, arise primarily from the difference between the cost of service and the amounts paid by the patrons for service under the applicable rate schedule of the co-op. Rates are calculated with the purpose in mind to provide sufficient revenue to meet the co-op's cash needs and obligations **including** repayments on the principal of REA loans. Consequently, receipts in payment of electric service normally will exceed the cost of rendering service, including provision for depreciation of plant. This difference must be accounted for in accordance with applicable bylaw requirements which should be reviewed by the accountant.

MEMBERSHIPS

Membership or capital stock accounts should be examined sufficiently to ascertain that outstanding certificates issued are in accordance with appropriate ledger balances.

PATRONAGE CAPITAL

For those **cooperatives** which have adopted a capital credits plan, the Uniform System of Accounts provides two patronage capital accounts to be used exclusively to allocate by patrons the excesses of operating revenues over expenses.

In the event the borrower's books reflect allocations to patrons as capital credits the accountant should ascertain that such credits were established only from an excess of operating revenues over costs of operations as determined

after all adjustments; that they were allocated in conformance with specific provisions of the borrower's bylaws, and that all other requirements have been complied with, including those of a legal nature. Where payments to patrons have been made the accountant should comment on the nature and extent of such payments.

OPERATING MARGINS

Usually the difference between operating revenues and expenses is termed "margins". Those cooperatives which have not adopted a capital credits plan should utilize this account to record both excess of operating revenues over operating expenses and operating deficits, unless prohibited by State laws or other restrictions beyond their control.

Normally this account is used to record net operating deficits at date of transition to a capital credits plan and any subsequent operating deficits occurring thereafter.

NONOPERATING MARGINS

This account includes the margins arising from nonoperating transactions such as merchandising, jobbing, contract work, interest revenues, and miscellaneous nonoperating revenues. Verification should determine that no operating items are included in this account.

CAPITAL GAINS AND LOSSES

This account represents the difference between the net book value and the amount realized from the sale or transfer of a capital asset. Verification should determine that such transactions are not recorded as operating margins.

OTHER EQUITIES

Two other accounts are provided in the classification for equities; namely, Account 273.4, Retired Capital Credits - Gain, and 273.5, Other Margins. Any entries to these two accounts should be investigated and should follow the text for those accounts.

EARNED SURPLUS

Certain cooperatives which, due to State laws or other restrictions, are unable to use the Member and Patron Equity accounts prescribed by the REA Uniform System of Accounts, may maintain Earned Surplus accounts. Generally, adjustments pertaining to prior years, except items which unduly distort income, should be recorded as current operations and not treated as direct entries to surplus.

CONTINGENT ASSETS AND LIABILITIES

Contingent assets and liabilities, if any, should be reflected on the balance sheet in short or by footnote.

REVENUES AND EXPENSES

An examination of revenues and expenses for the period under review should be made by application of suitable test-check methods. Unusual fluctuations should be discussed with officials familiar with the operations.

Many expense accounts such as taxes, depreciation and interest will be verified in the analyses of the related balance sheet accounts. A review of consumers' revenues should be made, with special revenue billings test-checked to written agreements. Miscellaneous revenues should be reviewed. Potential liability for income tax on the basis of percentage of revenues from consumers who are nonmembers should be investigated.

The accountant should satisfy himself that the basis of distribution of pay rolls, materials and supplies and other elements of operating expenses is in accordance with sound accounting. Special care should be exercised in the determination of the correctness of these distribution as between operations, maintenance, utility plant and cost of removal. Power purchased should be checked to the provisions of power contracts.

Rate schedules should be investigated, and any deviations from schedules approved by REA should be commented upon in the auditor's report.

STATE 23. COUNTY

CENTER COUNTY ELECTRIC COOPERATIVE

TOWN. STATE

REPORT OF AUDIT

FOR THE PERIOD

JANUARY 1, 1945 TO NOVEMBER 30, 1946

INCLUDING:

COMMENTS AND CERTIFICATE

BALANCE SHEET

STATEMENT OF REVENUE AND EXPENSE

SUPPORTING SCHEDULES

UNITED STATES DEPARTMENT OF AGRICULTURE

RURAL ELECTRIFICATION ADMINISTRATION

FINANCE DIVISION

REA

STATE 23 COUNTY

CENTER COUNTY ELECTRIC COOPERATIVE

TOWN, STATE

DIRECTORS

Name	Address	Principal Business
A. B. Adams	R.F.D. No. 3, Center City	Farmer
B. C. Brown	R.F.D. No. 1, Center City	Farmer
J. C. Jones	P. O. Box 37, Marysville	Merchant
S. R. Smith	R.F.D. No. 4, Center City	Farmer
W. W. Williams	R.F.D. No. 2, Center City	Farmer

OFFICES AND MANAGER

S. R. Smith	President
A. B. Adams	Vice President
W. W. Williams	Secretary-Treasurer
T. R. Thompson	Manager

STATE 23 COUNTY

CENTER COUNTY ELECTRIC COOPERATIVE

TOWN, STATE

We have examined the balance sheet of the Center County Electric Cooperative as of November 30, 1946, and without making a detailed audit of the transactions, have reviewed the record of the cooperative's operations for the period from January 1, 1945, to that date. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances, and included such tests of the accounting records and other supporting evidence as necessary to determine the effectiveness of the internal check or control maintained by the borrower, and such other procedures which we considered necessary.

We herewith present our report, based upon this examination, together with the following exhibits and schedules:

Exhibit A - Balance Sheet as of November 30, 1946

Exhibit B - Statement of Revenue and Expense,
January 1 - November 30, 1946

Schedule 1 - Utility Plant as of November 30, 1946

Schedule 2 -- Patronage Capital and Other Member and
Patron Equities as of November 30, 1946

Schedule 2 - Long-Term Obligation to REA,
November 30, 1946

BALANCE SHEET COMMENTS

ASSETS

<u>Utility Plant</u>	\$550,289.78	
<u>Less: Reserve for Depreciation</u>	<u>23,905.69</u>	<u>\$526,384.09</u>

An analysis of the utility plant is presented in Schedule 1.

For the period covered by the audit, we examined all entries recorded in both classified and unclassified plant accounts, including those for additions and retirements. We ascertained to the extent possible that property physically retired or sold had been credited to appropriate plant accounts and that the plant accounts reflected physical additions constructed or purchased during the period. The preparation of construction and retirement work orders was not current at the date of the audit,

Center County Eledtric Cooperative

therefore, plant values may be subject to adjustment because of unrecorded overhead and material charges and unrecorded retirements.

We also examined the provision for depreciation and reviewed charges and credits made to the reserve accounts. Depreciation has been established on the basis recommended by REA.

General Cash

In Bank	\$ 7,608.81	
Petty Cash	<u>100.00</u>	\$ <u>7,708.81</u>

Cash in the banks was verified by reconciliation with bank statements, and balances shown by the latter were directly confirmed with the depositories.

Petty cash was verified by count and traced back satisfactorily to November 30, 1946.

Construction and Installation Funds

\$ 4,584.36

Funds borrowed for construction and installation loan purposes, in the bank at the audit date, were verified by reconciling bank statements with the cooperative records and confirmation by the depositories. In accordance with the loan contract, use of these funds is restricted to purposes approved by REA.

Temporary Cash Investments

\$ 51,581.06

Temporary cash investments, consisting of Series F, U. S. Bonds, purchased for \$48,988.00 and maturing at \$60,000.00 in 1955 and 1956, and coupon U. S. Certificate of Indebtedness costing \$2,101.06, bearing 7/8% interest, payable semiannually and maturing December 1, 1948, were examined. All were issued in the name of the cooperative and are held in a safety deposit box in the X. Y. National Bank. The earned increment on the bonds is \$492.00.

Notes Receivable

\$ 10,799.67

Less: Reserve for Uncollectible Notes

500.00

\$ 10,279.67

Notes receivable were verified by examination and confirmed to the extent deemed necessary. The notes were all executed by consumers to finance wiring and plumbing installations or purchases of appliances. The latest maturity date is December 10, 1948.

Center County Electric Cooperative

The following amounts were past due:

<u>Period</u>	<u>Amount Past Due</u>	<u>Unpaid Balance of Notes Involved</u>
1 to 29 days	\$ 250.64	\$ 450.35
30 to 59 days	229.03	796.25
60 to 89 days	690.37	1,062.61
90 days and over	<u>471.13</u>	<u>1,531.40</u>
Total Past Due	<u>\$1,641.17</u>	<u>\$3,840.61</u>

The probability of collecting past due notes was discussed with the manager in order to determine the adequacy of the reserve. We believe the amount provided is ample to cover normal losses.

<u>Accounts Receivable-Consumers</u>	\$ 10,946.11	
<u>Less: Reserve for Uncollectible Accounts</u>	<u>500.00</u>	<u>\$ 10,446.11</u>

Accounts receivable were verified by confirmation to the extent deemed necessary. We examined the accounts and obtained information from the manager and office personnel regarding delinquent accounts. Accounts in the amount of \$210.00 were more than 90 days past due. We believe that the reserve for uncollectible accounts is sufficient to cover any probable losses from this source.

Uncollectible account losses for 1946 were \$58.20, or 1/10 of 1% of the amounts billed.

Examination revealed that this account was overstated by \$375.26. During the course of this audit, an adjustment was made transferring the amount of \$375.26 to a deferred debit account in order to bring the control account into agreement with the actual accounts receivable outstanding. Comments with respect to this account are made in a subsequent section of this report.

<u>Accounts Receivable-Other</u>	\$ 5,656.32	
<u>Less: Reserve for Uncollectible Accounts</u>	<u>45.00</u>	<u>\$ 5,611.32</u>

The balance of the accounts receivable-other consists of:

Sales of material to members	\$1,500.00
Sales to other cooperatives	3,611.00
Sales to employees	<u>545.32</u>
Total	<u>\$5,656.32</u>

Center County Electric Cooperative

We verified the accounts receivable by test confirmation and such other auditing procedures as were considered necessary. Of accounts included in this category, amounts of \$36.12 were more than 90 days past due. The reserve for uncollectible accounts of \$45.00 is considered adequate.

Material and Supplies-Electric
Material and Supplies-Resale

\$ 4,597.41
13.11 \$ 4,610.52

The physical inventories, as taken and certified by the manager, were verified by a test count of selected items and by a reconciliation with inventory records. We checked prices, extensions, and footings on the inventory summaries to the extent deemed necessary, and found them to be substantially correct. All items listed on the inventory appeared to represent usable materials.

The inventories were priced at average unit prices, as shown on the perpetual inventory records, and the ledger accounts were adjusted to agree therewith.

The balance of the materials and supplies-electric accounts was found to be \$1,093.83 in excess of the value of the material shown by the physical inventory and the difference was recorded as a deferred charge, pending further investigation.

Prepaid Expenses and Deferred Charges

\$ 2,169.09

We examined all prepaid and deferred items. Prepaid insurance and other prepaid expenses were correctly stated and all are properly chargeable to future operations.

Included in this balance as a deferred charge is \$1,093.83 representing the amount of materials unaccounted for as indicated by comparison of the ledger balance for electric materials and supplies with the value of the materials on hand as evidenced by a physical inventory taken as of the audit date. This difference apparently arose from failure to report and record properly materials issued for construction and maintenance purposes. To account properly for this suspended balance, a review of all materials transactions and construction charges will be required.

Also included under this caption is \$375.26 which represents the suspended excess of the general ledger account for consumers' accounts receivable over detailed consumers' balances due November 30, 1946. We did not verify detailed transactions involving consumers' accounts, but ascertained that the major reason for this difference was failure to maintain accurate records of forfeited discounts and adjustments to consumers' bills. Necessary steps should be taken to determine the disposition of this amount.

Center County Electric Cooperative

LIABILITIES AND OTHER CREDITS

<u>Long-Term Obligation to REA-Construction</u>	\$520,863.96	
<u>Long-Term Obligation to REA-Installation</u>	<u>6,746.21</u>	<u>\$527,610.17</u>

We verified the construction loan balance by examination of the notes and loan contracts on file in the cooperative office, and by comparison with quarterly statements from REA reflecting outstanding amounts.

A summary of the construction obligation follows:

Total long-term obligation		\$755,800.00
Less: Unadvanced funds		<u>162,871.48</u>
Net amount advanced to date		\$592,928.52
Less: Payments made when due	\$65,618.53	
Payments made before due date	<u>10,000.00</u>	<u>75,618.53</u>
Unpaid principal		\$517,309.99
Add: Accumulated interest deferred		<u>3,553.97</u>
Net construction obligation		<u>\$520,863.96</u>

All notes mature in 35 years from the dates of the notes except the note for \$260,000.00 which matures 25 years from the date of the note.

The installation obligation consists of eight notes, the unpaid balance totalling \$6,746.21, with due dates as indicated on Schedule 3. We verified the amount by examination of loan documents and other supporting evidence. Because payments on consumers' notes were delinquent, the cooperative found it necessary to use \$195.00 of its general funds in maintaining current payments to REA.

A further analysis of the long-term obligation is presented in Schedule 3.

Current and Accrued Liabilities

Accounts Payable	\$ 7,064.33	
Accrued Items	<u>478.68</u>	<u>\$ 7,543.01</u>

Accounts payable were verified by examination of supporting invoices and entries. As far as we were able to ascertain, all liabilities as of November 30, 1946 have been recorded on the books. We have examined subsidiary accounts payable records and have made inquiry concerning all current liabilities, and are satisfied that the accounts payable recorded in the books and shown on the balance sheet as of November 30, 1946 are correct.

Center County Electric Cooperative

The composition of accounts payable is as follows:

Construction Accounts Payable	\$5,064.33
General Accounts Payable	<u>2,000.00</u>
Total	<u>\$7,064.33</u>

Accrued taxes, wages, and interest were verified by computation and checked with the records of the cooperative.

Other Liabilities and Credits \$ 2,419.99

Consumers' deposits, in the amount of \$2,419.99, were verified by examination of the accounting records and supporting evidence, and found to be correctly stated.

Contributions in Aid of Construction \$ 65.19

Contributions in aid of construction were verified by examination of the accounts and subsidiary records.

MEMBER AND PATRON EQUITIES

Membership Fees \$ 13,445.00

The total amount of membership fees was verified by tests in relation to the number of members billed for service and the record of members not receiving service. The amount shown appears to be correctly stated. No detailed verification was made of the individual member records.

Patronage Capital \$ 72,259.02

This comprises patronage capital of \$27,774.61, which has been assigned as credits to individual patrons; capital in the amount of \$19,936.56, which has been established as ready for assignment to patrons; and capital amounting to \$24,547.85 which is to be established as assignable at the end of the year. The last figure represents the operating revenues for the current year in excess of the cost of service and includes any adjustments relating to operations of the prior year which were too small to warrant application to capital already assigned.

Donated Capital \$ 10.00

This balance represents forfeited membership fees.

Center County Electric Cooperative

Other Member and Patron Equities

\$ 22.65

Included under this caption are the following items:

Operating margins	(\$1,284.61)
Non-operating margins	707.26
Capital gains	<u>600.00</u>
 Total	 \$ <u><u>22.65</u></u>

COMMENTS ON OPERATIONS

We made a general review and test check of the revenue and expenses for the period under examination and compared the revenue and expenses with those of the preceding calendar year.

Exhibit "B" presents a statement of revenue and expenses for the first eleven months ended November 30, 1946.

There follows a condensed comparative statement of revenue and expenses covering operations for the years 1944 and 1945, and a percentage comparison with the results obtained during the first eleven months of 1946. It will be noted that although there has been a consistent increase in the total amount of operating expenses, the ratio of such expenses to gross revenue improved during 1946. During the first eleven months of 1946 there was an increase in connected consumers from 1176 to 1294, or approximately 10 percent. In the same period, the number of miles of line increased from 500 to 600, making an increase of 20 percent.

COMPARATIVE STATEMENT OF REVENUE AND EXPENSES

	<u>Year Ended</u>				<u>11 Months Ended</u>	
	<u>December 31, 1944*</u>		<u>December 31, 1945*</u>		<u>November 30, 1946</u>	
Operating Revenue	\$95,650.83	100%	\$102,368.26	100%	\$114,899.00	100%
Deductions:						
Cost of Power	\$25,011.07	26.1	\$ 26,430.88	25.8	\$ 27,216.97	23.7
Other Operating Expenses	25,211.83	26.4	29,225.43	28.6	30,367.75	26.4
Depreciation	9,465.71	9.9	11,372.39	11.1	12,988.54	11.3
Taxes	3,238.62	3.4	4,007.46	3.9	5,436.78	4.7
Interest	<u>91926.39</u>	<u>10.4</u>	<u>11,395.54</u>	<u>11.1</u>	<u>14,340.81</u>	<u>12.5</u>
Total Deductions	\$72,853.62	76.2	\$ 82,431.70	80.5	\$ 90,351.15	78.6
Operating Margins	\$22,797.21	23.8	\$ 19,936.56	19.5	\$ 24,547.85	21.4

*NOTE: Statement of revenue and expenses per operating reports submitted to REA, revised to include subsequent adjustments applicable to these years.

Center County Electric Cooperative

GENERAL COMMENTS

Work Orders

Costs of work orders covering construction and retirement work had not been closed to the plant account for many months prior to the date of the audit. Also, work orders had not been prepared to evidence construction completed during the previous five months. It was observed that material, labor, and overhead costs are not being charged to work orders in accordance with procedures which will insure accuracy.

Materials and Supplies Records

Investigation revealed that the cooperative had on hand the necessary forms to maintain properly a system of control on the receipts and uses of materials, but laxity in keeping the records and following instructions has resulted in large discrepancies between the various physical inventories, the perpetual inventory cards, and the general ledger control accounts.

Collection Policy

The collection policy in connection with energy sales has proved fairly satisfactory, but the large amount of delinquent accounts covering house wiring and merchandise sales reflects a condition which merits attention.

Membership Records

Two membership records are maintained, one for memberships issued and the other for area coverage applications for membership. It is recommended that, as consumers are furnished with energy, the memberships be transferred to the membership issued account.

Interfund Obligation

Not appearing on the balance sheet, Exhibit A, is an interfund obligation of \$195.00 representing an amount due general funds from the installation loan payment account for payments made from general funds on the installation loan obligation.

Depreciation

Depreciation has been computed monthly on the plant accounts, but no provision has been made to provide for depreciation of the large amount of construction work recorded as in progress, but actually in service. An audit adjustment was made to correct this condition.

REA

Center County Electric Cooperative

Subsidiary Records

The audit revealed that practically none of the subsidiary records had been reconciled with the general ledger control, and that some bank accounts had not been reconciled for months.

Area Coverage Survey

The area coverage survey revealed that 283.5 pole miles are to be built to serve 1236 consumers who have signed contracts, which will add approximately \$2,500.00 additional revenue per month, or an average of \$8.82 per mile. The survey also disclosed 1157 prospective consumers.

Audit of Construction Transactions

An examination of REA construction fund receipts and disbursements showed the status of these funds to be as follows:

Total REA advances		\$592,928.52
Cash balance, November 30, 1946		<u>4,269.25</u>
Net disbursements		\$588,659.27
Unapproved disbursements representing:		
Amounts disbursed in excess of funds advanced for specific purposes	\$16,326.42	
Unallowable disbursements	<u>376.25</u>	<u>16,702.67</u>
Approved disbursements		<u>\$571,956.60</u>

Since the unallowable disbursements cannot be approved under the terms of the loan contract, the borrower should reimburse construction funds from general funds in the amount of \$376.25. As to the amounts disbursed in excess of the advances for specific purposes, it is recommended that budget adjustments and advances be requested on the next requisition to cover these over disbursements.

Adjustments

All major adjustments were discussed with the manager. A schedule of all adjustments was provided and it was ascertained that the required entries were recorded in the books of the borrower at the conclusion of the audit.

Center County Electric Cooperative

CERTIFICATE

In our opinion, the accompanying balance sheet and related statements of revenue and expenses, and capital credits and margins, subject to the foregoing comments, with particular reference to those concerning the accuracy of utility plant, accounts receivable, and the material accounts, present fairly the position of the Center County Electric Cooperative at November 30, 1946, and the results of its operations for the period January 1, 1945 to November 30, 1946, in conformity with generally accepted accounting principles, applied on a consistent basis.

Date:

Auditor

REA

Exhibit A

STATE 23 COUNTY

CENTER COUNTY ELECTRIC COOPERATIVE

TOWN, STATE

BALANCE SHEET AS OF NOVEMBER 30, 1946**ASSETS**

Utility Plant (less reserve) (Schedule 1)	\$526,384.09
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Current and Other Assets:

General Cash	\$ 7,708.81
Construction and Installation Funds	4,584.36
Temporary Cash Investments	51,581.06
Notes Receivable (less reserve)	10,279.67
Accounts Receivable - Consumers (less reserve)	10,446.11
Accounts Receivable - Other (less reserve)	5,611.32
Material and Supplies	4,610.52
Prepaid Expenses and Deferred Charges	<u>2,169.09</u>

Total Current and Other Assets	<u>96,990.94</u>
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Total Assets	\$623,375.03
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LIABILITIES AND OTHER CREDITS

Long-Term Obligation to REA (Schedule 3)	\$527,610.17
Current and Accrued Liabilities	7,543.01
Other Liabilities and Credits	2,419.99
Contributions in Aid of Construction	<u>65.19</u>

Total Liabilities and Other Credits	<u>537,638.36</u>
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MEMBER AND PATRON EQUITIES

Membership Fees	\$ 13,445.00
Patronage Capital (Schedule 2)	72,259.02
Donated Capital	10.00
Other Member and Patron Equities (Schedule 2)	<u>22.65</u>

Total Member and Patron Equities	<u>\$ 85,736.67</u>
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REA

Exhibit B

STATE 23 COUNTY

CENTER COUNTY ELECTRIC COOPERATIVE

TOWN, STATE

STATEMENT OF REVENUE AND EXPENSE

January 1, 1946 to November 30, 1946

Operating Expenses:

Electric Energy Revenue	\$113,893.03	
Consumers' Forfeited Discounts and Penalties	833.81	
Miscellaneous Electric Revenue	<u>172.16</u>	\$114,899.00

Operating Revenue Deductions:

Cost of Power	\$ 27,216.97	
Operating Expense	7,081.84	
Maintenance Expense	4,234.51	
Meter Reading and Collection Expense	4,232.09	
Uncollectible Accounts	90.00	
Demonstration Salary and Expense	367.79	
General Office Salaries and Expense	11,068.86	
Engineering, Legal and Accounting Services	360.00	
Insurance	935.97	
Directors' Fees and Mileage	840.00	
Miscellaneous Operating Expense	1,156.69	
Depreciation Expense	12,988.84	
Taxes - Property	4,636.01	
Taxes - Social Security	734.26	
Taxes - Other	<u>66.51</u>	<u>76,010.34</u>

Operating Margins (before interest deductions) \$ 38,888.66

Non-Operating Margins:

Non-Operating Revenue	\$ 466.71	
Non-Operating Revenue Deductions	<u>306.66</u>	<u>160.05</u>

Net Margins (before interest deduction) \$ 39,048.71

Interest on Long-Term Debt 14,340.81

Net Margins for Period \$ 24,707.90

Operating Margins \$ 24,547.85

Non-Operating Margins 160.05

Net Margins for Period \$ 24,707.90

REA

Schedule 1

STATE 23 COUNTY

CENTER COUNTY ELECTRIC COOPERATIVE

TOWN, STATE

UTILITY PLANT AS OF NOVEMBER 30, 1946

CLASSIFIED PLANT IN SERVICE

Intangible Plant:

Organization	\$ 1,935.26	
Miscellaneous Intangilble Plant	<u>3,062.60</u>	\$ 4,997.86

Distribution Plant:

Land and Land Rights	\$ 13,237.16	
Poles, Towers and Fixtures	359,069.69	
Line Transformers	105,308.94	
Services	30,383.88	
Meters	<u>29,181.26</u>	537,180.93

General Plant:

Buildings	\$ 3,181.49	
Office Furniture and Equipment	2,022.41	
Transportation Equipment	4,032.96	
Tools and Work Equipment	<u>2,218.57</u>	<u>11,455.43</u>

Total Classified Plant in Service		\$553,634.22
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UNCLASSIFIED PLANT AND WORK IN PROGRESS

Unclassified Plant in Service	\$ --	
Contract Construction Work in Progress	--	
Work Order Construction Work in Progress	<u>24.78</u>	<u>24.78</u>

Total		\$553,659.00
Less: Donations in Aid of Construction		<u>3,369.22</u>

Total Utility Plant		\$550,289.78
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LESS RESERVES FOR DEPRECIATION

Distribution Plant	\$ 16,238.52	
General Plant:		
Buildings	\$ 1,271.43	
Office Furniture and Equipment	1,075.48	
Transportation Equipment	3,185.87	
Tools and Work Equipment	<u>2,134.39</u>	<u>7,667.17</u>

Total Reserves for Depreciation		<u>23,905.69</u>
DEPRECIATED COST OF UTILITY PLANT		<u>\$526,384.09</u>

REA

Schedule 2

STATE 23 COUNTY

CENTER COUNTY ELECTRIC COOPERATIVE

TOWN, STATE

PATRONAGE CAPITAL AND OTHER MEMBER AND PATRON EQUITIES AS OF NOVEMBER 30, 1946

	Patronage Capital		Other Member and Patron Equities			
	Assigned	Assignable	Non-Operating Margins	Capital Gains & Losses	Retired Capital Credits	
					Gains	Other Margins
Per Prior Audit						
January 1, 1945	\$12,074.61	\$14,500.00	\$(1,284.61)\$	\$ 500.00		
Large adjustments affecting						
Years:						
1943	8,500.00					
1944	(5,200.00)					
Transfers	14,500.00	(14,500.00)				
Adjusted Balance						
January 1, 1945	\$29,874.61		\$(1,284.61)\$	\$ 500.00		
1945 Net Increase (decrease) including adjustments		\$19,936.56				*
Adjusted Balance			223.00	150.00		
January 1, 1946	\$29,874.61	\$19,936.56	\$(1,284.61)\$	\$ 650.00		
1946 (11 months) Net increase (decrease) including small adjustments not applied to assigned capital						
Capital retirements		24,547.85	160.05	(50.00)		
Adjusted Balance	(2,100.00)					
November 30, 1946	\$27,774.61	\$44,484.41	\$(1,284.61)\$	\$ 600.00		

NOTE: \$19,936.56 is to be assigned to patrons following this audit.

SUMMARY: Patronage Capital \$72,259.02
Other Member and Patron Equities 22.65

R/A

THE UNIVERSITY OF CHICAGO

1911-1912

THE UNIVERSITY OF CHICAGO, CHICAGO, ILL.

RECEIVED FROM THE UNIVERSITY OF CHICAGO

FOR THE YEAR 1911-1912

AMOUNT \$100.00

PAID TO THE UNIVERSITY OF CHICAGO

FOR THE YEAR 1911-1912

AMOUNT \$100.00

PAID TO THE UNIVERSITY OF CHICAGO

FOR THE YEAR 1911-1912

AMOUNT \$100.00

PAID TO THE UNIVERSITY OF CHICAGO

FOR THE YEAR 1911-1912

AMOUNT \$100.00

THE UNIVERSITY OF CHICAGO
CHICAGO, ILL.
1911-1912

THE UNIVERSITY OF CHICAGO
CHICAGO, ILL.
1911-1912

THE UNIVERSITY OF CHICAGO
CHICAGO, ILL.
1911-1912

STATE 23 COUNTY

CENTER COUNTY ELECTRIC COOPERATIVE

TOWN, STATE

LONG-TERM OBLIGATIONS TO REA

November 30, 1948

CONSTRUCTION OBLIGATIONS

Note	Date of Note	Principal Amount	Deferred Interest	Amount Unadvanced	Principal Repayments	Net Obligation
A	8- 2- 47	\$260,000.00	\$	\$	\$61,025.46	\$198,974.54
B	7-20- 38	44,800.00			4,687.27	40,112.73
C	10-20-38	101,000.00			9,905.80	91,094.20
D	10-15-41	85,000.00	1,472.40			86,472.40
E	3-10-44	40,000.00	1,207.85			41,207.85
F	5-26-45	40,000.00	873.72			40,873.72
G	6-26-46	<u>185,000.00</u>		<u>162,871.48</u>		<u>22,128.52</u>
		<u>\$755,800.00</u>	<u>\$3,553.97</u>	<u>\$162,871.48</u>	<u>\$75,618.53</u>	<u>\$520,863.96</u>

INSTALLATION OBLIGATION

Date of Note	Maturity Date	Amount of Note	Principal Payments	Unpaid Balance	Amount Delinquent
1- 1-44	1- 1-49	\$ 600.00	\$ 400.00	\$ 200.00	
5- 1-44	5- 1-49	932.42	466.21	466.21	
5- 1-44	5- 1-49	1,400.00	700.00	700.00	
11-20-44	11-20-49	1,500.00	600.00	900.00	
8- 1-45	8- 1-50	1,200.00	240.00	960.00	
8-10-45	8-10-50	1,000.00	200.00	800.00	
1-10-46	1-10-51	1,200.00	120.00	1,080.00	
8- 1-46	8- 1-51	<u>1,640.00</u>		<u>1,640.00</u>	
		<u>\$9,472.42</u>	<u>\$2,726.21</u>	<u>\$6,746.21</u>	

REA

STATE OF NEW YORK

IN SENATE

JANUARY 10, 1900

REPORT OF

THE COMMISSIONERS OF THE LAND OFFICE

Year	Amount	Interest	Total
1899	\$1,000.00	\$100.00	\$1,100.00
1900	\$1,000.00	\$100.00	\$1,100.00
1901	\$1,000.00	\$100.00	\$1,100.00
1902	\$1,000.00	\$100.00	\$1,100.00
1903	\$1,000.00	\$100.00	\$1,100.00
1904	\$1,000.00	\$100.00	\$1,100.00
1905	\$1,000.00	\$100.00	\$1,100.00
1906	\$1,000.00	\$100.00	\$1,100.00
1907	\$1,000.00	\$100.00	\$1,100.00
1908	\$1,000.00	\$100.00	\$1,100.00
1909	\$1,000.00	\$100.00	\$1,100.00
1910	\$1,000.00	\$100.00	\$1,100.00

ALBANY: J. B. LIPPINCOTT & CO., PRINTERS, 1900.

THE COMMISSIONERS OF THE LAND OFFICE

Year	Amount	Interest	Total
1899	\$1,000.00	\$100.00	\$1,100.00
1900	\$1,000.00	\$100.00	\$1,100.00
1901	\$1,000.00	\$100.00	\$1,100.00
1902	\$1,000.00	\$100.00	\$1,100.00
1903	\$1,000.00	\$100.00	\$1,100.00
1904	\$1,000.00	\$100.00	\$1,100.00
1905	\$1,000.00	\$100.00	\$1,100.00
1906	\$1,000.00	\$100.00	\$1,100.00
1907	\$1,000.00	\$100.00	\$1,100.00
1908	\$1,000.00	\$100.00	\$1,100.00
1909	\$1,000.00	\$100.00	\$1,100.00
1910	\$1,000.00	\$100.00	\$1,100.00

ALBANY: J. B. LIPPINCOTT & CO., PRINTERS, 1900.